



**COUNTY OF LOS ANGELES  
DEPARTMENT OF AUDITOR-CONTROLLER**

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August 25, 2010

TO: Supervisor Gloria Molina, Chair  
Supervisor Mark Ridley-Thomas  
Supervisor Zev Yaroslavsky  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe  
Auditor-Controller

A handwritten signature in blue ink, reading "Wendy L. Watanabe", is written over the printed name and title.

SUBJECT: **AUDIT OF THE SOUTHERN CALIFORNIA GAS COMPANY  
FRANCHISE AGREEMENT**

In October 1955, the Board of Supervisors (Board) entered into a franchise agreement with Southern California Gas Company (SoCalGas) to install natural gas transmission/distribution facilities in, under and along highways in unincorporated areas of the County of Los Angeles. The franchise agreement requires SoCalGas to pay the County two percent of its gross annual receipts arising from the use, operation or possession of the franchise.

At the request of the Chief Executive Office (CEO), we contracted with a Certified Public Accounting firm, Mayer Hoffman McCann P.C. (Mayer), to audit SoCalGas' gross receipts and payments to the County for calendar years 2001 through 2005. Mayer also verified whether SoCalGas' payments complied with the California Public Utilities Code and all legislative/regulatory changes enacted during the audit period. The CEO requested the audit to identify changes that should be made to the franchise agreement with SoCalGas, which expired near the end of 2005. The franchise agreement has been extended on a year-to-year basis through December 31, 2011.

### **Summary of Findings**

Mayer's report (Attachment A) indicates that SoCalGas underreported its gross receipts by approximately \$7.3 million over the five-year audit period. As a result, Mayer reported that SoCalGas owes the County \$146,333 in franchise fees and surcharges. While SoCalGas does not agree with all of Mayer's findings, in an effort to reach a compromise, they have submitted a settlement offer to the County, which is currently under County Counsel's review.

Approximately \$7.2 million of the \$7.3 million in underreported gross receipts is due to SoCalGas not including revenue earned from underground storage facilities, storing and transmitting gas for other parties, investment income and miscellaneous revenue. The remaining underreported gross receipts are due to SoCalGas not properly reporting "Public Highways Only" and "Uncollectable Bills" revenue.

Mayer's management letter (Attachment B) includes recommendations for changes to the SoCalGas franchise agreement. For example, clarifying the meaning of "gross annual receipts arising from the use, operation or possession of the franchise", including examples of revenue types that should be included/excluded from the franchise revenue calculation, and more clearly describing how to calculate franchise revenues.

### **Review of Report**

Mayer discussed their findings with SoCalGas, the CEO, County Counsel and Auditor-Controller staff on several occasions during the review. Although Mayer and the County departments worked to resolve all audit issues/concerns, SoCalGas' response (Attachment C) indicates they do not agree with all the findings. However, as noted earlier, SoCalGas has submitted a settlement offer to the County, which is currently under County Counsel's review.

The County departments generally agree with the recommendations in Mayer's management letter. The CEO plans to incorporate the recommendations into the new franchise agreement that will be effective January 1, 2012. Please call me if you have questions, or your staff may contact Jim Schneiderman at (213) 253-0101.

WLW:MMO:JLS

#### **Attachments**

c: William T Fujioka, Chief Executive Officer  
Andrea S. Ordin, County Counsel  
Joseph Michael Mosca, Franchise and Fees Manager, SoCalGas  
Joan LeSage, Assistant General Counsel, SoCalGas  
Public Information Office  
Audit Committee



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February 3, 2010

Auditor-Controller  
County of Los Angeles  
Audit Division  
350 S. Figueroa St.  
Los Angeles, CA 90071

Accompanying this letter is our final report associated with the agreed upon procedures that were applied by our firm to the accounting records of the Southern California Gas Company ("the franchisee") for the period from January 1, 2001 through December 31, 2005 with respect to the franchise agreement that permits the use of pipelines installed in public rights of way in unincorporated areas of Los Angeles County.

This report identifies additional franchise revenue due from the franchisee to the County of Los Angeles in the amount of approximately \$146,000. As required by the auditing standards, the date of our report reflects the date that we completed performance of the procedures identified in the report. This occurred in January 2009. Because of the significance of the issues raised by our engagement, the franchisee was provided an opportunity to provide additional information with respect to the issues identified by our procedures. Significant discussion took place with respect to this information and our conclusions were modified with respect to certain issues as a result of the information provided. This process was completed in December, 2009. Upon completion of this process, our final audit report was prepared and released.

We have also issued our management letter to the County of Los Angeles advising the County of our recommendations to enhance internal controls over the County's administration of the franchise agreement.

Please feel free to give me a call if you have any questions. I can be reached at (949) 474-2020 (extension 273) or at [kalimam@cbiz.com](mailto:kalimam@cbiz.com).

Sincerely,

MAYER HOFFMAN MCCANN P.C.

A handwritten signature in blue ink, appearing to read "Ken Al-Imam".

Ken Al-Imam, C.P.A.  
Shareholder

**COUNTY OF LOS ANGELES**

**Independent Review of Compliance by  
Southern California Gas Company of  
Terms of County Franchise**

**For the period January 1, 2001  
through December 31, 2005**

COUNTY OF LOS ANGELES

Independent Review of Compliance by  
Southern California Gas Company of  
Terms of County Franchise

For the period January 1, 2001  
through December 31, 2005

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Auditor-Controller  
County of Los Angeles  
Los Angeles, California

**Southern California Gas Company Franchise**  
**Independent Accountants' Report on Procedures Performed**

We have applied certain procedures, as enumerated below, to the accounting records of Southern California Gas Company ("SCG") for the period January 1, 2001 through December 31, 2005. This engagement was performed to determine if SCG's franchise fee computations and reporting are in compliance with the franchise agreement between SCG and the County of Los Angeles (County).

This engagement to test SCG's records was performed in accordance with the attestation standards established by the *American Institute of Certified Public Accountants*. The sufficiency of the procedures was solely determined by the specified users of this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

**BACKGROUND**

Effective in October 1955, the County and SCG entered into a franchise agreement (Ordinance No. 6765) allowing SCG to transmit and distribute gas in the County unincorporated highways, ways, and alleys for a period of fifty years after the effective date of the Ordinance. The Ordinance requires that SCG pay to the County "two percent (2%) of the gross annual receipts arising from the use, operation or possession of this franchise." As a result, the percentages that are used to calculate the amount of gross receipts/imputed revenue and the amounts due to the County are affected when revenue is overstated/understated in SCG's Franchise Fee Reports.

On November 18, 2008, the Board of Supervisors of the County of adopted Ordinance No. 2008-0062F to extend the term of the franchise agreement with SCG through December 31, 2009.

**SUMMARY OF FINDINGS**

The procedures performed and the results of those procedures are identified below in detail. The following is a summary of the findings noted as a result of those procedures. The impacts of these findings are reflected in Exhibits A-1 through F-5.

1. Certain gross receipts were improperly excluded from the calculation of franchise fees due to the County. The impact on franchise fees due is \$143,623 which is reflected in Adjustment 2 on Exhibits A-1, B-1, C-1, D-1 and E-1 and in more detail on Exhibits F-1 through F-5. Further discussion of the finding can be found on pages 5 to 6, procedure 8.



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2. "Public Highways Only" on the 2004 and 2005 Franchise Fee Report was understated in the amount of \$1,856,395, resulting from a discrepancy noted in the 2004 value of meters. The impact on franchise fees due is \$2,924 which is reflected in Adjustment 4 on Exhibit D-1 and Adjustment 3 on Exhibit E-1. Further discussion of the finding can be found on page 4, procedure 7.
3. "Uncollectible Bills" were overstated on the 2001 Franchise Fee Report by \$168,822. The impact on franchise fees due is \$86 which is reflected in Adjustment 3 on Exhibit A-1. Further discussion of the finding can be found on page 6, procedure 9.
4. We noted insignificant discrepancies in mileage of main in pipeline on 2002, 2003, and 2004 Franchise Fee Reports which is reflected in Adjustment 3 on Exhibits B-1, C-1 and D-1. The finding did not result in any additional franchise fees due. Further discussion of the finding can be found on page 6, procedure 10.
5. We noted a 5 ft. discrepancy during our mileage testing. There is no impact on franchise fees due. Further discussion of the finding can be found on page 7, procedure 11.

The following chart summarizes the total amount owed to the County as a result of the above findings:

Calendar Year	Franchise Fee Report	Municipal Surcharge	Total
2001	\$ 29,529	-	29,529
2002	33,203	1	33,204
2003	30,123	4	30,127
2004	19,597	365	19,962
2005	33,081	430	33,511
Total	<u>\$ 145,533</u>	<u>800</u>	<u>146,333</u>

The total of the finding amounts stated in the Summary of Findings vary from the above schedule by \$300 due to rounding.

#### PROCEDURES PERFORMED

Our procedures performed and results are as follows:

1. We obtained an understanding of Ordinance No. 6765, the Broughton Act (Public Utilities Code, §§ 6001-6071), Public Utilities Code §§ 6354(b) and relevant case law.
2. We obtained Annual Franchise Fee Reports for each of the five years during the period from January 1, 2001 through December 31, 2005. We obtained an understanding of the methodology used to calculate the franchise fee and tested the mathematical accuracy of the reports.

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Results: On the 2003 Franchise Fee Report and the 2003 Municipal Surcharge Fee Report, the "Percentage of Mileage of this Franchise to Total Mileage in Highways" was reported as 5.12128%. Upon recalculation, we noted that the percentage should be 5.15044%. When combined with other mathematical errors noted in procedure 3, there is no adjustment to fees payable to the County.

The calculation of the Franchise Fee is based on the following two primary components and sub-components:

**Gross Receipts Applicable to Distributing Agencies in Highways:**

- Investment in Distributing Agencies
- Gross Receipts Subject to the Franchise

**Mileage of Main in Pipeline System:**

- Mileage Pipeline System
- Mileage in Highways

The remainder of the report is broken up into these two components and subsections.

**Gross Receipts Applicable to Distributing Agencies in Highways**

The franchise fee calculation applies SCG's total gross receipts to SCG's investment in operative property located in the County's rights of way as a percentage of SCG's total investment in operative property to extrapolate the gross receipts applicable to the franchise. This calculation methodology is supported by case law as a practical, but not exclusive, approach to estimating gross receipts applicable to the franchise.

**Investment in Distributing Agencies**

3. We obtained *summarized* schedules by asset type for the years during the period from January 1, 2001 through December 31, 2005. We recalculated the schedules for mathematical accuracy. We compared the total investment in distributing agencies per the schedules to the amounts listed on each of the five Franchise Fee Reports.

Results: On the 2003 Franchise Fee Report and the 2003 Municipal Surcharge Fee Report, we noted the "Total Investment in Physical Properties", "Public and Private Rights of Way", and "Public Highway Only" amounts were understated due to a mathematical error. The amounts reported should have been the average of the 2002 and 2003 amounts per the schedule by asset type. When combined with another mathematical error noted in procedure 2, there is no adjustment to fees payable to the County.

4. Per inquiry with SCG staff, we determined which components of abovementioned asset schedules were considered public rights of way and private rights of way. We recalculated the assets identified as public and private rights of way and compared our calculations to the amounts listed on the Franchise Fee Reports.

Results: No exceptions were noted as a result of these procedures.



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5. We compared the total investment in operative property of each of the five annual audited financial statements. The total investment in distributing agencies included in the Franchise Fee Reports was calculated based on the average of the beginning of year and end of year financial statement balances.

Results: No exceptions were noted as a result of these procedures.

6. We identified the assets reported as public or private rights of way that were included in the Transmission Plant and Distribution Plant asset categories and performed the following procedures:
  - a. Mains and Measuring & Regulating Stations – Since the assets value specifically associated with public rights of way cannot be determined, SCG calculates the asset value based on mileage of mains. See page 7 for further testing of mileage of mains.
  - b. Services – Since the asset value specifically associated with public rights of way cannot be easily determined, SCG assumes that 50% of Services are private and 50% are public. SCE maintains that this calculation was agreed upon between SCG and the County as a fair way to estimate the assets located in the public rights of way. For other franchises, SCG calculates this amount as a ten year rolling average of actual assets, which is a more accurate way of determining the percentage.
  - c. Meters & Gauges – SCG assigns specific asset values to Meters & Gauges located in public rights of way. We agreed the total asset value to a detailed schedule by meter type without exception. We further tested the average unit cost and number of meters as part of procedure 7 below.
  - d. Meter Installations - SCG assigns specific asset values to Meter Installations located in public rights of way based on the number of Meters. We agreed the total asset value to a detailed schedule and recalculated amounts by type of meter installation without exception. We further tested the average unit cost as part of procedure 7 below.
  - e. Gas Regulators – SCG assigns specific asset values to Gas Regulators located in the public rights of way based on the number of Meters. We agreed the total asset value to a detailed schedule, recalculated amounts by type of regulator, and determined the reasonableness of the assumptions used by SCG without exception. We further tested the average unit cost as part of procedure 7 below.
7. We obtained transaction detail for all additions and deletions to Services, Meters, Meter Installations, and Gas Regulators from 2001 through 2005. We selected a sample of 47 transactions (30% of all asset additions) from the detailed listing and obtained supporting documentation (detailed listing of components of cost, information regarding type of asset, etc.). The purpose of this sample was to determine if the average unit cost of the asset was reasonable and to determine if the change in the number of units from year to year was reasonable.

Results – We detected an error in SCG's calculation of meter values in the 2004 detailed schedule by meter type. As a result, "Public Highways Only" on the 2004 and 2005 Franchise Fee Report was understated in the amount of \$1,856,395. The impact on franchise fees due is \$2,924 which is reflected in Adjustment 4 on Exhibit D-1 and Adjustment 3 on Exhibit E-1.

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### Gross Receipts Subject to the Franchise

Ordinance No. 6765 requires SCG to pay the County “two percent (2%) of the gross annual receipts of the grantee [SCG] arising from the use, operation or possession of the franchise.” The Ordinance further specifies that gross receipts shall include amounts attributable “in both highways under the jurisdiction of the County and in state highways within the unincorporated area of the County”. The Ordinance specifies that gross receipts refer to amounts “received, or accrued in connection with the furnishing of the commodity or service arising from the use or operation of this franchise”.

The California Supreme Court case “County of Los Angeles vs. Southern Counties Gas” (42 Cal.2d 129) includes the following relevant conclusions:

“Gross receipts...arise from all of its operative property, whether or not such property is located on rights of way, public or private, or on land owned or leased by it or on land owned by others”.

... there is a relationship between the value of the property and the amount it earns; the dollars invested in the property produce the dollars that form the gross receipts. Since every dollar invested in operative property earns an equal part of the gross receipts, gross receipts are attributed to a particular item or class of operative property according to the dollars invested in it.

Since SCG has included **all** of its capital assets in its definition of “operative property”, it follows that **all** of SCG’s gross receipts are included in the preliminary calculation to determine the dollar of gross receipts attributable to a dollar invested in operative property. Furthermore, the only permitted deduction from SCG’s revenues to determine “gross receipts” are amounts not actually received.

8. We traced the total Gross Receipts from operations as reported on the Franchise Fee Reports to operating revenues reported on the audited financial statements for the years during the period from January 1, 2001 – December 31, 2005.

Results: The following significant reductions of revenue existed between the two reports. The most significant unallowable revenue exclusions (amounts over \$5 million) are discussed in detail below. Adjustments to franchise fees due are summarized in Adjustment 2 on Exhibits A-1, B-1, C-1, D-1, and E-1. The total impact of the following findings results in additional amounts due to the County totaling \$143,623 as reported on Exhibits F-1 through F-5 as follows:

Exhibit F-1	\$ 29,444
Exhibit F-2	33,200
Exhibit F-3	30,465
Exhibit F-4	18,556
Exhibit F-5	<u>31,958</u>
Total	<u>\$143,623</u>

### Unallowable Revenue Exclusions

Rent from Property Used in Operations (\$65.3 million) – We tested a sample of revenue transactions representing 24% of the total account balance. One significant activity recorded in this category is oil revenue. When gas is pumped out of underground storage facilities, oil is separated from the gas and sold. Since the underground storage facilities are included in SCG’s definition of

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operative property, the gross receipts must also be included. Also included in this category is rent from property used in operations. Since the property is included in SCG's definition of operative property, the gross receipts must also be included.

**HUB Revenue** (\$83.7 million) – Hub transactions including parking, loaning, and wheeling gas are used to optimize the storage of gas. Hub transactions utilize the assets in the public right of way to both store gas and transmit gas from one point in the system to another point in the system. If the gas reaches a customer in the County's jurisdiction, the revenue is subject to the Municipal Land Use Surcharge. Since operative property is utilized to generate this revenue, the gross receipts must be included.

**Miscellaneous Revenue** (\$62 million) – Miscellaneous revenue includes sales of parts, connection services, gas program services, pipeline services, other gas revenue, gas storage revenue, and other miscellaneous revenues. Since the revenue meets the definition of gross receipts from operations, the revenue gross revenue should be included.

**Investment Income** (\$70.6 million) – Among the revenues that arise from the operation of the franchise is investment earnings. Excess revenues over expenses are invested and generate investment income. Since the excess funds arise from the use of the franchise, the investment earnings also arise from the use of the franchise. Investment earnings arising from the use of the franchise should be included in "gross receipts". The Ordinance states the SCG must pay "two percent of the gross annual receipts of the grantee arising from the use, operation or possession of this franchise." Since income earned on the investment of revenues generated by the franchise derives directly from the "operation of the franchise", investment earnings are also subject to the franchise computation. The income earned on the investment of revenues generated by the franchise was excluded from the "Gross Revenues" in 2001-2005.

9. We compared the amount reported for "uncollectible bills" on the Reconciliation Report of Franchise Statement Gross Receipts to the Annual Report Operating Revenue with SCG's detailed system report ("Bad Debt Write Off and Recoveries by Legal Jurisdiction").

Uncollectible bills were overstated by \$168,822 in the 2001 Franchise Fee Report. The impact on franchise fees due is \$86 which is reflected in Adjustment 3 on Exhibit A-1.

#### **Mileage of Main in Pipeline System**

10. The Gross Receipts subject to the franchise are further prorated on a mileage basis to determine the amount of gross receipts applicable to public and private rights of way and public highways. We obtained detailed reports of mileage of main in the pipeline system and traced the totals from the detailed reports to the amounts reported on the Franchise Fee Reports. We also tested the mathematical accuracy of the detailed reports.

Results: We noted insignificant adjustments in the amounts reported on the 2002, 2003, and 2004 Franchise Fee Reports (See Exhibits B-1 through D-2 for details). None of the adjustments resulted in a modification of franchise fees owed to the County.

11. We obtained an understanding of how SCG records and classifies mileage of main in pipeline system and mileage of main in highways. We selected a sample of additions and deletions to pipeline mileage from 2001 – 2005 as reported on the detailed mileage of pipeline reports. We obtained

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supporting documentation for the pipeline additions and deletions in the form of *Completion Sketch* maps. The maps identified the specific lengths of the new or removed pipeline and contained information regarding the section of the pipeline that was in the public right of way. We compared SCG's maps to the County's maps to determine if the boundaries identified as public rights of way were accurate. We recalculated the additions and deletions of pipeline mileage both in the public rights of way and not in the public rights of way.

Results: For one pipeline tested, we found that 5 feet of the pipeline located in a public right of way was incorrectly recorded as located in a private right of way. The adjustment of 5 feet to the Mileage of Pipeline reported on the Franchise Fee Report resulted in a negligible additional fees due.

### **Municipal Surcharge Fee Report**

12. The Municipal Surcharge Fee Report is calculated by multiplying the Percent of Distributing Agencies to Total by Imputed Revenue applicable to Distributing Agencies in 'Public and Private Rights of Way' and 'Public Highways only'. The imputed revenue is then prorated on a mileage basis to determine the amount of imputed revenue applicable to this Franchise. Amounts due were based on 2% of the applicable gross receipts. We traced the imputed revenue reported on the franchise statements to SCG system generated reports of total imputed revenue by legal jurisdiction.

Results: No exceptions were noted as a result of these procedures.

13. The Municipal Surcharge Fee Report is calculated in the same manner as the Franchise Fees with the exception of the revenue number. Thus, all errors noted above in the areas of Investment in Distributing Agencies and Mileage of Main in Pipeline System also impact the calculation of Municipal Surcharge Fee Report due to the County. The impacts of these errors are included in Exhibits A-2 through E-2.

### **Other Compliance Issues**

14. We evaluated SCG's compliance with Sections 21 and 22 of the Ordinance. The Ordinance requires SCG to provide an annual report to the County showing the permit number of each permit obtained since the last report covering the installation of new mains and the length and size of the mains. The Ordinance further requires SCG to pay the County \$100 per new mile or fraction thereof within 90 days of the year end, subject to a 1% per month charge on unpaid amounts.

Results: The annual report detailing the length and size of new mains was not provided to the County for any of the five years during the period from January 1, 2001 – December 31, 2005. Upon auditor request, SCG did provide evidence of paying the \$100 per new mile charge to the County for 2001-2005 along with a summarized schedule of new miles of mains. We calculated the amount payable to the County based on the new miles of mains added to the system and found that SCG had paid all amounts owed to the County. The format and timing of this required reporting during the audit period was not in full compliance with Sections 21 and 22 of the Ordinance. The County requires full compliance with the reporting requirements of Sections 21 and 22 of the Ordinance.

In response to our request, the Southern California Gas Company declined to provide a letter of representation that management is unaware of any issues of noncompliance with respect to the matters addressed by this report.

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We were not engaged to, and did not perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the County with respect to the Southern California Gas Company Franchise and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes.

*Mayor Hittman McCann P.C.*

Irvine, California  
January 9, 2009

Southern California Gas Company  
2001 Franchise Fee Report

EXHIBIT A-1

	As Reported by Southern CA Gas	Adjustment	As Revised by MHM
<b>A</b>			
1. Total investment in physical properties	\$ 6,280,317,208	-	1. 6,280,317,208
Investments in distributing agencies in:			
2. Public and private rights of way	2,788,278,430	-	2,788,278,430
3. Public highways only	807,031,973	-	807,031,973
Percent of distributing agencies to total for:			
4. Public and private rights of way (A.2/A.1)	44.39710%	0.00000%	44.39710%
5. Public highways only (A.3/A.1)	12.85018%	0.00000%	12.85018%
Total gross receipts from operation for period:			
Gross: Receipts	3,343,807,114	58,041,735	2. 3,401,848,849
Less: Uncollectible Bills	(15,060,756)	168,822	3. (14,891,934)
6. Total receipts	<u>3,328,746,358</u>	<u>58,210,557</u>	<u>3,386,956,915</u>
Gross receipts applicable to distributing agencies in:			
7. Public and private rights of way (A.6*A.4)	1,477,866,849	25,843,648	1,503,710,497
8. Public highways only (A.6*A.5)	427,749,899	7,480,111	435,230,010
<b>B</b>			
1. Mileage of main in pipeline system			
2. Total mileage in pipeline	48,139.8770 mi.	-	48,139.8770
Mileage in highways	39,682.3700 mi.	-	39,682.3700
3. Percent of mileage in highways to total mileage (B.2/B.1)	82.43139%	-	82.43139%
Gross receipts applicable to Mileage to Highways for:			
Public and private rights of way (A.7*B.3)	1,218,226,186	21,303,278	1,239,529,464
Public highways only (A.8)	427,749,899	7,480,111	435,230,010
4. Total	<u>1,645,976,085</u>	<u>28,783,389</u>	<u>1,674,759,474</u>
5. Total Mileage in Highways as above (B.2)	39,682.3700 mi.	-	39,682.3700
6. Mileage in Highways of this Franchise	2,035.5077 mi.	-	2,035.5077
Percent of Mileage of this franchise			
7. to total mileage in highways (B.6/B.5)	5.12950%	-	5.12950%
<b>C</b>			
1. Gross receipts applicable to this franchise (B.4*B.7)	<u>84,430,343</u>	<u>1,476,466</u>	<u>85,906,810</u>
<b>D</b>			
Amount due based on the 2% of the above applicable gross receipts (C.1*.2%)	<u>\$ 1,688,607</u>	<u>29,529</u>	<u>1,718,136</u>
1. Not applicable for 2001			
2. Gross receipts have been adjusted as follows:			
Rent from property used in operations	\$ 17,618,394		
Hub revenue	29,139,403		
Miscellaneous revenues	(8,884,062)		
Investment income	20,168,000		
	<u>\$ 58,041,735</u>		
3. The amount reported for uncollectible bills on the Reconciliation of Franchise Statement Gross Receipts to Annual Report Operating Revenues did not agree to detailed system report.			

Southern California Gas Company  
2001 Municipal Surcharge Fee Report

EXHIBIT A-2

	As Reported by Southern CA Gas	Adjustment	As Revised by MHM
<b>A</b>			
1. Total investment in physical properties	\$ 6,280,317,208	-	6,280,317,208
Investments in distributing agencies in:			
2. Public and private rights of way	2,788,278,430	-	2,788,278,430
3. Public highways only	807,031,973	-	807,031,973
Percent of distributing agencies to total for:			
4. Public and private rights of way (A.2/A.1)	44.39710%	0.00000%	44.39710%
5. Public highways only (A.3/A.1)	12.85018%	0.00000%	12.85018%
Total imputed revenue from transportation customers for period:			
6. Imputed revenue	1,805,808,979	-	1,805,808,979
Imputed revenue applicable to distributing agencies in:			
7. Public and private rights of way (A.4*A.6)	801,726,737	-	801,726,737
8. Public highways only (A.5*A.6)	232,049,678	-	232,049,678
<b>B</b>			
Mileage of main in pipeline system			
1. Total mileage in pipeline system	48,139.8770	-	48,139.8770
2. Mileage in highways	39,682.3700	-	39,682.3700
3. Percent of mileage in highways to total mileage (B.2/B.1)	82.43139%	0.00000%	82.43139%
Imputed revenue applicable to mileage to highways for:			
Public and private rights of way (A.7*B.3)	660,874,498	-	660,874,498
Public highways only (A.8)	232,049,678	-	232,049,678
4. Total	892,924,175	-	892,924,175
5. Total mileage in highways as above (B.2)	39,682.3700	-	39,682.3700
6. Mileage in highways of this franchise	2,035.5077	-	2,035.5077
Percent of mileage of this franchise			
7. to total mileage in highways (B.6/B.5)	5.12950%	-	5.12950%
<b>C</b>			
1. Imputed revenue applicable to this franchise (B.4*B.7)	45,802,558	-	45,802,558
<b>D</b>			
Amount due based on the 2% of the above			
1. applicable imputed revenue (C.1*2%)	916,051	-	916,051
The total amounts calculated and collected pursuant to Public Utilities Code 6353 were greater than the total amounts calculated pursuant Public Utilities Code 6354(b).			
2. Your share of the difference	50,829	-	50,829
3. Total amount due (D.1+D.2)	966,880	-	966,880
4. Municipal surcharge bad debts	(11)	-	(11)
Net amount due (D.3+D.4)	\$ 966,869	-	966,869



Southern California Gas Company  
2002 Franchise Fee Report

EXHIBIT B-1

	As Reported by Southern CA Gas	Adjustment	As Revised by MHM
<b>A</b>			
1. Total investment in physical properties	\$ 6,436,435,558	-	1. 6,436,435,558
Investments in distributing agencies in:			
2. Public and private rights of way	2,899,523,145	-	2,899,523,145
3. Public highways only	826,865,428	-	826,865,428
Percent of distributing agencies to total for:			
4. Public and private rights of way (A.2/A.1)	45.04859%	0.00000%	45.04859%
5. Public highways only (A.3/A.1)	12.84664%	0.00000%	12.84664%
Total gross receipts from operation for period:			
Gross: Receipts	2,621,263,376	64,797,333	2. 2,686,060,709
Less: Uncollectible Bills	(6,564,877)	-	(6,564,877)
6. Total receipts	2,614,698,499	64,797,333	2,679,495,832
Gross receipts applicable to distributing agencies in:			
7. Public and private rights of way (A.6*A.4)	1,177,884,807	29,190,151	1,207,074,958
8. Public highways only (A.6*A.5)	335,900,903	8,324,165	344,225,068
<b>B</b>			
1. Mileage of main in pipeline system			
2. Total mileage in pipeline	48,501.5511 mi.	(0.1345)	3. 48,501.4166 mi.
Mileage in highways	39,905.3640 mi.	(0.0009)	3. 39,905.3631 mi.
3. Percent of mileage in highways to total mileage (B.2/B.1)	82.27647%	0.00023%	82.27670%
Gross receipts applicable to Mileage to Highways for:			
Public and private rights of way (A.7*B.3)	969,122,036	24,019,358	993,141,394
Public highways only (A.8)	335,900,903	8,324,165	344,225,068
4. Total	1,305,022,939	32,343,523	1,337,366,462
5. Total Mileage in Highways as above (B.2)	39,905.3640 mi.	(0.0009)	39,905.3631 mi.
6. Mileage in Highways of this Franchise	2,048.2988 mi.	(0.0005)	2,048.2983 mi.
Percent of Mileage of this franchise			
7. to total mileage in highways (B.6/B.5)	5.13289%	0.00000%	5.13289%
<b>C</b>			
1. Gross receipts applicable to this franchise (B.4*B.7)	66,985,404	1,660,143	68,645,546
<b>D</b>			
Amount due based on the 2% of the above applicable gross receipts (C.1*.2%)	\$ 1,339,708	33,203	1,372,911
1. Not applicable for 2002			
2. Gross receipts have been adjusted as follows:			
Rent from property used in operations	\$ 15,769,683		
Hub revenues	14,478,813		
Miscellaneous revenues	30,122,837		
Investment income	4,426,000		
	\$ 64,797,333		
3. Minor error in mileage. Adjustment does not result in additional amounts due.			

Southern California Gas Company  
2002 Municipal Surcharge Fee Report

EXHIBIT B-2

	As Reported by Southern CA Gas	Adjustment	As Revised by MHM
<b>A</b>			
1. Total investment in physical properties	\$ 6,436,435,558	-	6,436,435,558
Investments in distributing agencies in:			
2. Public and private rights of way	2,899,523,145		2,899,523,145
3. Public highways only	826,865,428		826,865,428
Percent of distributing agencies to total for:			
4. Public and private rights of way (A.2/A.1)	45.04859%	0.00000%	45.04859%
5. Public highways only (A.3/A.1)	12.84664%	0.00000%	12.84664%
Total imputed revenue from transportation customers for period:			
6. Imputed revenue	560,280,679	-	560,280,679
Imputed revenue applicable to distributing agencies in:			
7. Public and private rights of way (A.4*A.6)	252,398,518	-	252,398,518
8. Public highways only (A.5*A.6)	71,977,218	-	71,977,218
<b>B</b>			
Mileage of main in pipeline system			
1. Total mileage in pipeline system	48,501.5511 mi.	(0.1345) *	48,501.4166
2. Mileage in highways	39,905.3640 mi.	(0.0009) *	39,905.3631
3. Percent of mileage in highways to total mileage (B.2/B.1)	82.27647%	0.00023%	82.27670%
Imputed revenue applicable to mileage to highways for:			
Public and private rights of way (A.7*B.3)	207,664,590	571	207,665,161
Public highways only (A.8)	71,977,218	-	71,977,218
4. Total	279,641,808	571	279,642,379
5. Total mileage in highways as above (B.2)	39,905.3640	(0.0009)	39,905.3631
6. Mileage in highways of this franchise	2,048.2988	(0.0005)	2,048.2983
Percent of mileage of this franchise			
7. to total mileage in highways (B.6/B.5)	5.13289%	0.00000%	5.13289%
<b>C</b>			
1. Imputed revenue applicable to this franchise (B.4*B.7)	14,353,709	26	14,353,735
<b>D</b>			
Amount due based on the 2% of the above			
1. applicable imputed revenue (C.1*2%)	287,074	1	287,075
The total amounts calculated and collected pursuant to Public Utilities Code 6353 were greater than the total amounts calculated pursuant Public Utilities Code 6354(b).			
2. Your share of the difference	16,673	-	16,673
3. Total amount due (D.1+D.2)	303,747	1	303,748
4. Municipal surcharge bad debts	(171)	-	(171)
Net amount due (D.3+D.4)	\$ 303,576	1	303,577

\* See explanation provided on Exhibit B-1

Southern California Gas Company  
2003 Franchise Fee Report

EXHIBIT C-1

	As Reported by <u>Southern CA Gas</u>	<u>Adjustment</u>	As Revised <u>by MHM</u>
<b>A</b>			
1. Total investment in physical properties	\$ 6,553,531,753	161,796,982	1. 6,715,328,735
Investments in distributing agencies in:			
2. Public and private rights of way	2,965,631,083	55,745,896	1. 3,021,376,979
3. Public highways only	838,294,454	12,433,731	1. 850,728,185
Percent of distributing agencies to total for:			
4. Public and private rights of way (A.2/A.1)	45.25241%	-0.26017%	44.99224%
5. Public highways only (A.3/A.1)	12.79149%	-0.12304%	12.66845%
Total gross receipts from operation for period:			
Gross: Receipts	3,251,301,988	59,153,807	2. 3,310,455,795
Less: Uncollectible Bills	(6,303,720)	-	(6,303,720)
6. Total receipts	<u>3,244,998,268</u>	<u>59,153,807</u>	<u>3,304,152,075</u>
Gross receipts applicable to distributing agencies in:			
7. Public and private rights of way (A.6*A.4)	1,468,439,921	18,172,188	1,486,612,109
8. Public highways only (A.6*A.5)	415,083,629	3,501,285	418,584,914
<b>B</b>			
1. Mileage of main in pipeline system			
2. Total mileage in pipeline	48,697.8132	314.3342	3. 49,012.1474
Mileage in highways	40,037.4115	227.9579	3. 40,265.3694
3. Percent of mileage in highways to total mileage (B.2/B.1)	82.21604%	-0.06218%	82.15386%
Gross receipts applicable to Mileage to Highways for:			
Public and private rights of way (A.7*B.3)	1,207,293,153	14,016,031	1,221,309,184
Public highways only (A.8)	<u>415,083,629</u>	<u>3,501,285</u>	<u>418,584,914</u>
4. Total	<u>1,622,376,782</u>	<u>17,517,316</u>	<u>1,639,894,097</u>
5. Total Mileage in Highways as above (B.2)	40,037.4115	227.9579	40,265.3694
6. Mileage in Highways of this Franchise	2,062.1030	(0.0004)	2,062.1026
Percent of Mileage of this franchise			
7. to total mileage in highways (B.6/B.5)	5.12128% *	0.00000%	5.12128%
<b>C</b>			
1. Gross receipts applicable to this franchise (B.4*B.7)	<u>82,477,428</u> *	<u>1,506,152</u>	<u>83,983,580</u>
<b>D</b>			
Amount due based on the 2% of the above			
applicable gross receipts (C.1 * 2%)	<u>\$ 1,649,549</u>	<u>30,123</u>	<u>1,679,672</u>
1. The 12/31/02 asset numbers were used for the 2003 Franchise Tax Return in error. The average of 12/31/02 and 12/31/03 should have been used.			
2. Gross receipts have been adjusted as follows:			
Rent from property used in operations	\$ 11,635,299		
Hub revenues	13,058,213		
Miscellaneous revenues	1,186,295		
Investment income	<u>33,274,000</u>		
	<u>\$ 59,153,807</u>		
3 To correct the average miles due to errors in the 2002 footage numbers.			
* Mathematical error in Southern California Gas Tax Return			

Southern California Gas Company  
2003 Municipal Surcharge Fee Report

EXHIBIT C-2

	As Reported by Southern CA Gas	Adjustment	As Revised by MHM
<b>A</b>			
1. Total investment in physical properties	\$ 6,553,531,753	161,796,982 *	6,715,328,735
Investments in distributing agencies in:			
2. Public and private rights of way	2,965,631,083	55,745,896 *	3,021,376,979
3. Public highways only	838,294,454	12,433,731 *	850,728,185
Percent of distributing agencies to total for:			
4. Public and private rights of way (A.2/A.1)	45.25241%	-0.26017%	44.99224%
5. Public highways only (A.3/A.1)	12.79149%	-0.12304%	12.66845%
Total imputed revenue from transportation customers for period:			
6. Imputed revenue	<u>1,253,910,875</u>	<u>-</u>	<u>1,253,910,875</u>
Imputed revenue applicable to distributing agencies in:			
7. Public and private rights of way (A.4*A.6)	567,424,895	(3,262,275)	564,162,620
8. Public highways only (A.5*A.6)	160,393,884	** (1,542,789)	158,851,095
<b>B</b>			
Mileage of main in pipeline system			
1. Total mileage in pipeline system	48,697.8132	314.3342 *	49,012.1474
2. Mileage in highways	40,037.4115	227.9579 *	40,265.3694
3. Percent of mileage in highways to total mileage (B.2/B.1)	82.21604%	-0.06218%	82.15386%
Imputed revenue applicable to mileage to highways for:			
Public and private rights of way (A.7*B.3)	466,514,254	(3,032,903)	463,481,351
Public highways only (A.8)	<u>160,393,884</u>	<u>(1,542,789)</u>	<u>158,851,095</u>
4. Total	<u>626,908,138</u>	<u>(4,575,692)</u>	<u>622,332,446</u>
5. Total mileage in highways as above (B.2)	40,037.4115	227.958	40,265.3694
6. Mileage in highways of this franchise	2,062.1030	(0.0004)	2,062.1026
Percent of mileage of this franchise			
7. to total mileage in highways (B.6/B.5)	5.12128% **	0.00000	5.12128%
<b>C</b>			
1. Imputed revenue applicable to this franchise (B.4*B.7)	<u>31,871,206</u>	** <u>186</u>	<u>31,871,392</u>
<b>D</b>			
Amount due based on the 2% of the above			
1. applicable imputed revenue (C.1*2%)	637,424	4	637,428
The total amounts calculated and collected pursuant to Public Utilities Code 6353 were greater than the total amounts calculated pursuant Public Utilities Code 6354(b).			
2. Your share of the difference	<u>37,023</u>	<u>-</u>	<u>37,023</u>
3. Total amount due (D.1+D.2)	674,447	4	674,451
4. Municipal surcharge bad debts	<u>(4)</u>	<u>-</u>	<u>(4)</u>
Net amount due (D.3+D.4)	<u>\$ 674,443</u>	<u>4</u>	<u>674,447</u>

\* See explanation provided on Exhibit C-1

\*\* Mathematical error in Southern California Gas Tax Return

Southern California Gas Company  
2004 Franchise Fee Report

EXHIBIT D-1

	As Reported by Southern CA Gas	Adjustment	As Revised by MHM
<b>A</b>			
1. Total investment in physical properties	\$ 7,013,360,243	-	1. 7,013,360,243
Investments in distributing agencies in:			
2. Public and private rights of way	3,148,174,437	-	3,148,174,437
3. Public highways only	875,909,608	1,856,395	4. 877,766,003
Percent of distributing agencies to total for:			
4. Public and private rights of way (A.2/A.1)	44.88825%	0.00000%	44.88825%
5. Public highways only (A.3/A.1)	12.48916%	0.02647%	12.51563%
Total gross receipts from operation for period:			
Gross: Receipts	3,784,025,309	36,704,865	2. 3,820,730,174
Less: Uncollectible Bills	(8,765,438)	-	(8,765,438)
6. Total receipts	3,775,259,871	36,704,865	3,811,964,736
Gross receipts applicable to distributing agencies in:			
7. Public and private rights of way (A.6*A.4)	1,694,647,959	16,476,170	1,711,124,129
8. Public highways only (A.6*A.5)	471,498,152	5,593,133	477,091,285
<b>B</b>			
1. Mileage of main in pipeline system			
2. Total mileage in pipeline	49,559.3194 mi.	(0.2329)	3. 49,559.0865
Mileage in highways	40,646.2776 mi.	0.0003	3. 40,646.2779
3. Percent of mileage in highways to total mileage (B.2/B.1)	82.01541%	0.00039%	82.01579%
Gross receipts applicable to Mileage to Highways for:			
Public and private rights of way (A.7*B.3)	1,389,872,423	13,519,604	1,403,392,027
Public highways only (A.8)	471,498,152	5,593,133	477,091,285
4. Total	1,861,370,575	19,112,737	1,880,483,312
5. Total Mileage in Highways as above (B.2)	40,646.2776 mi.	0.0003	40,646.2779
6. Mileage in Highways of this Franchise	2,083.8284 mi.	-	2,083.8284
Percent of Mileage of this franchise			
7. to total mileage in highways (B.6/B.5)	5.12674%	0.00000%	5.12674%
<b>C</b>			
1. Gross receipts applicable to this franchise (B.4*B.7)	95,427,604	979,859	96,407,463
<b>D</b>			
Amount due based on the 2% of the above applicable gross receipts (C.1*.2%)	\$ 1,908,552	19,597	1,928,149
1. Not applicable for 2004			
2. Gross receipts have been adjusted as follows:			
Rent from property used in operations	\$ 9,401,049		
Hub revenues	12,516,614		
Miscellaneous revenues	11,723,202		
Investment income	3,064,000		
	\$ 36,704,865		
3. To correct the average miles due to errors in the 2003 footage numbers.			
4. To correct the asset value of meters at 12/31/04 (increase of \$1,856,395).			

Southern California Gas Company  
2004 Municipal Surcharge Fee Report

EXHIBIT D-2

	As Reported by Southern CA Gas	Adjustment	As Revised by MHM
<b>A</b>			
1. Total investment in physical properties	\$ 7,013,360,243	-	7,013,360,243
Investments in distributing agencies in:			
2. Public and private rights of way	3,148,174,437	-	3,148,174,437
3. Public highways only	875,909,608	1,856,395 *	877,766,003
Percent of distributing agencies to total for:			
4. Public and private rights of way (A.2/A.1)	44.88825%	0.00000%	44.88825%
5. Public highways only (A.3/A.1)	12.48916%	0.02647%	12.51563%
Total imputed revenue from transportation customers for period:			
6. Imputed revenue	1,335,892,382	-	1,335,892,382
Imputed revenue applicable to distributing agencies in:			
7. Public and private rights of way (A.4*A.6)	599,658,666	-	599,658,666
8. Public highways only (A.5*A.6)	166,841,704	353,603	167,195,307
<b>B</b>			
Mileage of main in pipeline system			
1. Total mileage in pipeline system	49,559.3194	(0.2329) *	49,559.0865
2. Mileage in highways	40,646.2776	0.0003 *	40,646.2779
3. Percent of mileage in highways to total mileage (B.2/B.1)	82.01541%	0.00039%	82.01579%
Imputed revenue applicable to mileage to highways for:			
Public and private rights of way (A.7*B.3)	491,812,497	2,315	491,814,811
Public highways only (A.8)	166,841,704	353,603	167,195,307
4. Total	658,654,200	355,918	659,010,118
5. Total mileage in highways as above (B.2)	40,646.2776 mi.	0.0003	40,646.2779
6. Mileage in highways of this franchise	2,083.8284 mi.	-	2,083.8284
Percent of mileage of this franchise to total mileage in highways (B.6/B.5)	5.12674%	(0.00000)	5.12674%
<b>C</b>			
1. Imputed revenue applicable to this franchise (B.4*B.7)	33,767,479	18,247	33,785,726
<b>D</b>			
Amount due based on the 2% of the above			
1. applicable imputed revenue (C.1*2%)	675,350	365	675,715
The total amounts calculated and collected pursuant to Public Utilities Code 6353 were greater than the total amounts calculated pursuant Public Utilities Code 6354(b).			
2. Your share of the difference	35,406	-	35,406
3. Total amount due (D.1+D.2)	710,756	365	711,121
4. Municipal surcharge bad debts	(14)	-	(14)
Net amount due (D.3+D.4)	\$ 710,742	365	711,107

\* See explanation provided on Exhibit D-1

Southern California Gas Company  
2005 Franchise Fee Report

EXHIBIT E-1

	As Reported by Southern CA Gas	Adjustment	As Revised by MHM
<b>A</b>			
1. Total investment in physical properties	\$ 7,240,144,044	-	1. 7,240,144,044
Investments in distributing agencies in:			
2. Public and private rights of way	3,282,639,698	-	3,282,639,698
3. Public highways only	900,519,889	1,856,395	3. 902,376,284
Percent of distributing agencies to total for:			
4. Public and private rights of way (A.2/A.1)	45.33943%	0.00000%	45.33943%
5. Public highways only (A.3/A.1)	12.43787%	0.02564%	12.46351%
Total gross receipts from operation for period:			
Gross: Receipts	4,222,235,079	62,953,654	2. 4,285,188,733
Less: Uncollectible Bills	(8,954,907)	-	(8,954,907)
6. Total receipts	4,213,280,172	62,953,654	4,276,233,826
Gross receipts applicable to distributing agencies in:			
7. Public and private rights of way (A.6*A.4)	1,910,277,015	28,542,825	1,938,819,840
8. Public highways only (A.6*A.5)	524,042,418	8,926,535	532,968,953
<b>B</b>			
1. Mileage of main in pipeline system			
2. Total mileage in pipeline	50,027.8219	-	50,027.8219
Mileage in highways	41,005.8546	-	41,005.8546
3. Percent of mileage in highways to total mileage (B.2/B.1)	81.96610%	0.00000%	81.96610%
Gross receipts applicable to Mileage to Highways for:			
Public and private rights of way (A.7*B.3)	1,565,779,571	23,395,440	1,589,175,012
Public highways only (A.8)	524,042,418	8,926,535	532,968,953
4. Total	2,089,821,989	32,321,975	2,122,143,964
5. Total Mileage in Highways as above (B.2)	41,005.8546	-	41,005.8546
6. Mileage in Highways of this Franchise	2,098.4129	-	2,098.4129
Percent of Mileage of this franchise			
7. to total mileage in highways (B.6/B.5)	5.11735%	-	5.11735%
<b>C</b>			
1. Gross receipts applicable to this franchise (B.4*B.7)	106,943,495	1,654,028	108,597,524
<b>D</b>			
Amount due based on the 2% of the above applicable gross receipts (C.1*.2%)	\$ 2,138,870	33,081	2,171,950
1. Not applicable for 2005			
2. Gross receipts have been adjusted as follows:			
Rent from property used in operations	\$ 10,875,229		
Hub revenues	14,535,040		
Miscellaneous revenues	27,910,385		
Investment income	9,633,000		
	\$ 62,953,654		
3. To correct the asset value of meters at 12/31/04 (increase of \$1,856,395).			



Southern California Gas Company  
2005 Municipal Surcharge Fee Report

EXHIBIT E-2

	As Reported by Southern CA Gas	Adjustment	As Revised by MHM
<b>A</b>			
1. Total investment in physical properties	\$ 7,240,144,044	-	7,240,144,044
Investments in distributing agencies in:			
2. Public and private rights of way	3,282,639,698	-	3,282,639,698
3. Public highways only	900,519,889	1,856,395 *	902,376,284
Percent of distributing agencies to total for:			
4. Public and private rights of way (A.2/A.1)	45.33943%	0.00000%	45.33943%
5. Public highways only (A.3/A.1)	12.43787%	0.02564%	12.46351%
Total imputed revenue from transportation customers for period:			
6. Imputed revenue	<u>1,637,109,715</u>	<u>-</u>	<u>1,637,109,715</u>
Imputed revenue applicable to distributing agencies in:			
7. Public and private rights of way (A.4*A.6)	742,256,136	-	742,256,136
8. Public highways only (A.5*A.6)	203,621,620	419,760	204,041,380
<b>B</b>			
Mileage of main in pipeline system			
1. Total mileage in pipeline system	50,027.8219	-	50,027.8219
2. Mileage in highways	41,005.8546	-	41,005.8546
3. Percent of mileage in highways to total mileage (B.2/B.1)	81.96610%	0.00000%	81.96610%
Imputed revenue applicable to mileage to highways for:			
Public and private rights of way (A.7*B.3)	608,398,408	-	608,398,408
Public highways only (A.8)	<u>203,621,620</u>	<u>419,760</u>	<u>204,041,380</u>
4. Total	<u>812,020,028</u>	<u>419,760</u>	<u>812,439,787</u>
5. Total mileage in highways as above (B.2)	41,005.8546	-	41,005.8546
6. Mileage in highways of this franchise	2,098.4129	-	2,098.4129
Percent of mileage of this franchise			
7. to total mileage in highways (B.6/B.5)	5.11735%	-	5.11735%
<b>C</b>			
1. Imputed revenue applicable to this franchise (B.4*B.7)	<u>41,553,903</u>	<u>21,481</u>	<u>41,575,383</u>
<b>D</b>			
Amount due based on the 2% of the above			
1. applicable imputed revenue (C.1*2%)	831,078	430	831,508
The total amounts calculated and collected pursuant to Public Utilities Code 6353 were greater than the total amounts calculated pursuant Public Utilities Code 6354(b).			
2. Your share of the difference	<u>96,209</u>	<u>-</u>	<u>96,209</u>
3. Total amount due (D.1+D.2)	927,287	430	927,717
4. Municipal surcharge bad debts	<u>(19)</u>	<u>-</u>	<u>(19)</u>
Net amount due (D.3+D.4)	<u>\$ 927,268</u>	<u>430</u>	<u>927,698</u>

\* See explanation provided on Exhibit E-1

Southern California Gas Company  
2001 Understatement of Revenues on Franchise Fee Report

EXHIBIT F-1

	As Reported by Southern CA Gas	Adjustment	As Revised by MHM
<b>A</b>			
1. Total investment in physical properties	\$ 6,280,317,208	-	6,280,317,208
Investments in distributing agencies in:			
2. Public and private rights of way	2,788,278,430	-	2,788,278,430
3. Public highways only	807,031,973	-	807,031,973
Percent of distributing agencies to total for:			
4. Public and private rights of way (A.2/A.1)	44.39710%	0.00000%	44.39710%
5. Public highways only (A.3/A.1)	12.85018%	0.00000%	12.85018%
Total gross receipts from operation for period:			
Gross: Receipts	3,343,807,114	58,041,735 *	3,401,848,849
Less: Uncollectible Bills	(15,060,756)	-	(15,060,756)
6. Total receipts	<u>3,328,746,358</u>	<u>58,041,735</u>	<u>3,386,788,093</u>
Gross receipts applicable to distributing agencies in:			
7. Public and private rights of way (A.6*A.4)	1,477,866,849	25,768,696	1,503,635,545
8. Public highways only (A.6*A.5)	427,749,899	7,458,417	435,208,316
<b>B</b>			
1. Mileage of main in pipeline system			
2. Total mileage in pipeline	48,139.8770 mi.	-	48,139.8770
Mileage in highways	39,682.3700 mi.	-	39,682.3700
3. Percent of mileage in highways to total mileage (B.2/B.1)	82.43139%	-	82.43139%
Gross receipts applicable to Mileage to Highways for:			
Public and private rights of way (A.7*B.3)	1,218,226,186	21,241,494	1,239,467,680
Public highways only (A.8)	<u>427,749,899</u>	<u>7,458,417</u>	<u>435,208,316</u>
4. Total	<u>1,645,976,085</u>	<u>28,699,911</u>	<u>1,674,675,996</u>
5. Total Mileage in Highways as above (B.2)	39,682.3700 mi.	-	39,682.3700
6. Mileage in Highways of this Franchise	2,035.5077 mi.	-	2,035.5077
Percent of Mileage of this franchise			
7. to total mileage in highways (B.6/B.5)	5.12950%	-	5.12950%
<b>C</b>			
1. Gross receipts applicable to this franchise (B.4*B.7)	<u>84,430,343</u>	<u>1,472,184</u>	<u>85,902,528</u>
<b>D</b>			
Amount due based on the 2% of the above applicable gross receipts (C.1*.2%)	<u>\$ 1,688,607</u>	<u>29,444</u>	<u>1,718,051</u>
* Gross receipts have been adjusted as follows:			
Rent from property used in operations	\$ 17,618,394		
Hub revenue	29,139,403		
Miscellaneous revenues	(8,884,062)		
Investment income	<u>20,168,000</u>		
	<u>\$ 58,041,735</u>		

Southern California Gas Company  
2002 Understatement of Revenues on Franchise Fee Report

EXHIBIT F-2

	As Reported by Southern CA Gas	Adjustment	As Revised by MHM
<b>A</b>			
1. Total investment in physical properties	\$ 6,436,435,558	-	6,436,435,558
Investments in distributing agencies in:			
2. Public and private rights of way	2,899,523,145	-	2,899,523,145
3. Public highways only	826,865,428	-	826,865,428
Percent of distributing agencies to total for:			
4. Public and private rights of way (A.2/A.1)	45.04859%	0.00000%	45.04859%
5. Public highways only (A.3/A.1)	12.84664%	0.00000%	12.84664%
Total gross receipts from operation for period:			
Gross: Receipts	2,621,263,376	64,797,333 *	2,686,060,709
Less: Uncollectible Bills	(6,564,877)	-	(6,564,877)
6. Total receipts	2,614,698,499	64,797,333	2,679,495,832
Gross receipts applicable to distributing agencies in:			
7. Public and private rights of way (A.6*A.4)	1,177,884,807	29,190,151	1,207,074,958
8. Public highways only (A.6*A.5)	335,900,903	8,324,165	344,225,068
<b>B</b>			
1. Mileage of main in pipeline system			
2. Total mileage in pipeline	48,501.5511 mi.	-	48,501.5511 mi.
Mileage in highways	39,905.3640 mi.	-	39,905.3640 mi.
3. Percent of mileage in highways to total mileage (B.2/B.1)	82.27647%	0.00000%	82.27647%
Gross receipts applicable to Mileage to Highways for:			
Public and private rights of way (A.7*B.3)	969,122,036	24,016,626	993,138,662
Public highways only (A.8)	335,900,903	8,324,165	344,225,068
4. Total	1,305,022,939	32,340,791	1,337,363,730
5. Total Mileage in Highways as above (B.2)	39,905.3640 mi.	-	39,905.3640 mi.
6. Mileage in Highways of this Franchise	2,048.2988 mi.	-	2,048.2988 mi.
Percent of Mileage of this franchise			
7. to total mileage in highways (B.6/B.5)	5.13289%	0.00000%	5.13289%
<b>C</b>			
1. Gross receipts applicable to this franchise (B.4*B.7)	66,985,404	1,660,018	68,645,421
<b>D</b>			
Amount due based on the 2% of the above applicable gross receipts (C.1 *.2%)	\$ 1,339,708	33,200	1,372,908
* Gross receipts have been adjusted as follows:			
Rent from property used in operations	\$ 15,769,683		
Hub revenues	14,478,813		
Miscellaneous revenues	30,122,837		
Investment income	4,426,000		
	\$ 64,797,333		

Southern California Gas Company  
2003 Understatement of Revenues on Franchise Fee Report

EXHIBIT F-3

	As Reported by Southern CA Gas	Adjustment	As Revised by MHM
<b>A</b>			
1. Total investment in physical properties	\$ 6,553,531,753	-	6,553,531,753
Investments in distributing agencies in:			
2. Public and private rights of way	2,965,631,083	-	2,965,631,083
3. Public highways only	838,294,454	-	838,294,454
Percent of distributing agencies to total for:			
4. Public and private rights of way (A.2/A.1)	45.25241%	0.00000%	45.25241%
5. Public highways only (A.3/A.1)	12.79149%	0.00000%	12.79149%
Total gross receipts from operation for period:			
Gross: Receipts	3,251,301,988	59,153,807 *	3,310,455,795
Less: Uncollectible Bills	(6,303,720)	-	(6,303,720)
6. Total receipts	<u>3,244,998,268</u>	<u>59,153,807</u>	<u>3,304,152,075</u>
Gross receipts applicable to distributing agencies in:			
7. Public and private rights of way (A.6*A.4)	1,468,439,921	26,768,536	1,495,208,456
8. Public highways only (A.6*A.5)	415,083,629	7,566,701	422,650,330
<b>B</b>			
1. Mileage of main in pipeline system			
2. Total mileage in pipeline	48,697.8132	-	48,697.8132
Mileage in highways	40,037.4115	-	40,037.4115
3. Percent of mileage in highways to total mileage (B.2/B.1)	82.21604%	0.00000%	82.21604%
Gross receipts applicable to Mileage to Highways for:			
Public and private rights of way (A.7*B.3)	1,207,293,153	22,007,966	1,229,301,119
Public highways only (A.8)	415,083,629	7,566,701	422,650,330
4. Total	<u>1,622,376,782</u>	<u>29,574,667</u>	<u>1,651,951,449</u>
5. Total Mileage in Highways as above (B.2)	40,037.4115	-	40,037.4115
6. Mileage in Highways of this Franchise	2,062.1030	-	2,062.1030
Percent of Mileage of this franchise			
7. to total mileage in highways (B.6/B.5)	5.15044%	0.00000%	5.15044%
<b>C</b>			
1. Gross receipts applicable to this franchise (B.4*B.7)	<u>83,559,549</u>	<u>1,523,226</u>	<u>85,082,774</u>
<b>D</b>			
Amount due based on the 2% of the above applicable gross receipts (C.1*.2%)	<u>\$ 1,671,191</u>	<u>30,465</u>	<u>1,701,655</u>

\* Gross receipts have been adjusted as follows

Rent from property used in operations	\$ 11,635,299
Hub revenues	13,058,213
Miscellaneous revenues	1,186,295
Investment income	<u>33,274,000</u>
	<u>\$ 59,153,807</u>

Southern California Gas Company  
2004 Understatement of Revenues on Franchise Fee Report

EXHIBIT F-4

	As Reported by Southern CA Gas	Adjustment	As Revised by MHM
<b>A</b>			
1. Total investment in physical properties	\$ 7,013,360,243	-	7,013,360,243
Investments in distributing agencies in:			
2. Public and private rights of way	3,148,174,437	-	3,148,174,437
3. Public highways only	875,909,608	-	875,909,608
Percent of distributing agencies to total for:			
4. Public and private rights of way (A.2/A.1)	44.88825%	0.00000%	44.88825%
5. Public highways only (A.3/A.1)	12.48916%	0.00000%	12.48916%
Total gross receipts from operation for period:			
Gross: Receipts	3,784,025,309	36,704,865 *	3,820,730,174
Less: Uncollectible Bills	(8,765,438)	-	(8,765,438)
6. Total receipts	3,775,259,871	36,704,865	3,811,964,736
Gross receipts applicable to distributing agencies in:			
7. Public and private rights of way (A.6*A.4)	1,694,647,959	16,476,170	1,711,124,129
8. Public highways only (A.6*A.5)	471,498,152	4,584,128	476,082,280
<b>B</b>			
1. Mileage of main in pipeline system			
2. Total mileage in pipeline	49,559.3194 mi.	-	49,559.3194
Mileage in highways	40,646.2776 mi.	-	40,646.2776
3. Percent of mileage in highways to total mileage (B.2/B.1)	82.01541%	0.00000%	82.01541%
Gross receipts applicable to Mileage to Highways for:			
Public and private rights of way (A.7*B.3)	1,389,872,423	13,512,998	1,403,385,422
Public highways only (A.8)	471,498,152	4,584,128	476,082,280
4. Total	1,861,370,575	18,097,127	1,879,467,702
5. Total Mileage in Highways as above (B.2)	40,646.2776 mi.	-	40,646.2776
6. Mileage in Highways of this Franchise	2,083.8284 mi.	-	2,083.8284
Percent of Mileage of this franchise			
7. to total mileage in highways (B.6/B.5)	5.12674%	0.00000%	5.12674%
<b>C</b>			
1. Gross receipts applicable to this franchise (B.4*B.7)	95,427,604	927,792	96,355,396
<b>D</b>			
Amount due based on the 2% of the above			
applicable gross receipts (C.1*.2%)	\$ 1,908,552	18,556	1,927,108

\* Gross receipts have been adjusted as follows:

Rent from property used in operations	\$ 9,401,049
Hub revenues	12,516,614
Miscellaneous revenues	11,723,202
Investment income	3,064,000
	<u>\$ 36,704,865</u>

Southern California Gas Company  
2005 Understatement of Revenues on Franchise Fee Report

EXHIBIT F-5

	As Reported by Southern CA Gas	Adjustment	As Revised by MHM
<b>A</b>			
1. Total investment in physical properties	\$ 7,240,144,044	-	7,240,144,044
Investments in distributing agencies in:			
2. Public and private rights of way	3,282,639,698	-	3,282,639,698
3. Public highways only	900,519,889	-	900,519,889
Percent of distributing agencies to total for:			
4. Public and private rights of way (A.2/A.1)	45.33943%	0.00000%	45.33943%
5. Public highways only (A.3/A.1)	12.43787%	0.00000%	12.43787%
Total gross receipts from operation for period:			
Gross: Receipts	4,222,235,079	62,953,654 *	4,285,188,733
Less: Uncollectible Bills	(8,954,907)	-	(8,954,907)
6. Total receipts	<u>4,213,280,172</u>	<u>62,953,654</u>	<u>4,276,233,826</u>
Gross receipts applicable to distributing agencies in:			
7. Public and private rights of way (A.6*A.4)	1,910,277,015	28,542,825	1,938,819,840
8. Public highways only (A.6*A.5)	524,042,418	7,830,095	531,872,513
<b>B</b>			
1. Mileage of main in pipeline system			
2. Total mileage in pipeline	50,027.8219	-	50,027.8219
Mileage in highways	41,005.8546	-	41,005.8546
3. Percent of mileage in highways to total mileage (B.2/B.1)	81.96610%	0.00000%	81.96610%
Gross receipts applicable to Mileage to Highways for:			
Public and private rights of way (A.7*B.3)	1,565,779,571	23,395,440	1,589,175,012
Public highways only (A.8)	<u>524,042,418</u>	<u>7,830,095</u>	<u>531,872,513</u>
4. Total	<u>2,089,821,989</u>	<u>31,225,536</u>	<u>2,121,047,525</u>
5. Total Mileage in Highways as above (B.2)	41,005.8546	-	41,005.8546
6. Mileage in Highways of this Franchise	2,098.4129	-	2,098.4129
Percent of Mileage of this franchise			
7. to total mileage in highways (B.6/B.5)	5.11735%	-	5.11735%
<b>C</b>			
1. Gross receipts applicable to this franchise (B.4*B.7)	<u>106,943,495</u>	<u>1,597,920</u>	<u>108,541,415</u>
<b>D</b>			
Amount due based on the 2% of the above applicable gross receipts (C.1*.2%)	<u>\$ 2,138,870</u>	<u>31,958</u>	<u>2,170,828</u>

\* Gross receipts have been adjusted as follows:

Rent from property used in operations	\$ 10,875,229
Hub revenues	14,535,040
Miscellaneous revenues	27,910,385
Investment income	<u>9,633,000</u>
	<u>\$ 62,953,654</u>



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Los Angeles, CA 90071

In planning and performing the agreed-upon procedures that were applied to the accounting records of the Southern California Gas Company and Southern California Edison Company ("the franchisees") for the period from January 1, 2001 through December 31, 2005, we noted certain matters that we believe represent opportunities for the County of Los Angeles (County) to strengthen its controls over the administration of the franchises.

#### Suggestions for Improvements to Franchise Ordinance

As a result of performing our procedures, certain issues came to our attention that gave us an opportunity to make recommendations to the County to enhance its administration of the franchise agreements:

- When the Ordinances and Franchise Agreements are extended, the County should clarify in these documents the meaning of the term "gross annual receipts arising from the use, operation or possession of this franchise". We recommend that "gross annual receipts" be defined to be "operating revenues, non-operating revenues and receipts credited to expense accounts that were generated directly or indirectly as a result of the ownership of the franchise". To further clarify this meaning, examples should be provided to illustrate their proper inclusion. The ordinance should be clear that the examples addressed are provided for illustration purposes only and are not meant to be all inclusive. If the County and the franchisee determine that there are allowable exclusions, those exclusions should also be listed. To assist the County in this regard, we have attached examples of operating and non-operating revenues and our recommendation for inclusion or exclusion.
- The County should consider defining "Investments" used in the calculation of franchise fees. The ordinance should define the asset value as the original cost of the asset. In addition, if the County and the franchisee determine that there are specific exclusions to "Investments", those exclusions should be specifically mentioned. Examples of matters to be determined to be included or excluded are mineral rights, cushion gas, construction in progress, and intangible assets. We recommend that all of the above examples be negotiated for inclusion as a part of the new ordinance, except for cushion gas. In addition, we recommend that the term "investments" be defined to be: "All property whether tangible or intangible that is used in the provision of services associated with the franchise. Such property includes, but is not limited to mineral rights, construction in progress, and intangible assets."
- The County should consider defining how the "Services" asset is allocated between public and private rights of way. *Services* represent capital assets located between the main and the meter. Since it is difficult to determine the assets physically located in the public vs. private right of way, the franchisee must estimate the percentage. In cases



Auditor-Controller  
County of Los Angeles  
Page 2 of 2

public vs. private right of way, the franchisee must estimate the percentage. In cases where the franchisee has data to permit the computation of averages, the franchisee uses a 10 year average to determine this percentage. Generally the County uses 50% for purposes of this allocation between public and private rights of way. Due to the lack of substantial support for ten-year averaged data, we recommend that the new ordinance stipulate for purposes of simplicity and consistency a 50% allocation of services between public and private rights of way.

- The new ordinance should include reference to the public utilities code regarding Municipal Use Surcharges.
- The ordinance should include a requirement for periodic audits.
- The County uses the 2% (Broughton Act) method of calculating the franchise tax. The majority of other jurisdictions in California are using the greater of the 2% (Broughton Act) method or 1% of gross receipts generated within the jurisdiction (1937 Act). We recommend that the County include the "greater of" methodology in the new ordinance to ensure that it is receiving the maximum amount of franchise revenue allowed under State law.
- The new ordinance should include an illustration of the formula to be utilized when calculating the franchise revenue. The formula currently in use that may be memorialized in the new ordinance (if agreed to by the County) is:

All gross receipts ÷ all operative property =

The amount of gross receipts attributable to \$1 of operative property

The amount of gross receipts attributable to \$1 of operative property X the operative property used in transmitting and distributing gas in Los Angeles County =

Gross receipts subject to the franchise

This communication is intended for the use of the County should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes.

*Mayor Hoffman Mc Connell*

Irvine, California  
January 9, 2009

*Attachment 1*

**Examples of Operating and Non-operating Revenue SCG**

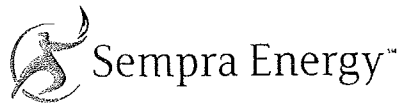
<b><u>Type of Revenue</u></b>	<b><u>Recommended for Inclusion or Exclusion</u></b>
Balancing Accounts	Exclusion
Finance Charges	Inclusion
HUB Revenue	Inclusion
Investment Income	Inclusion
Memorandum Accounts	Exclusion
Miscellaneous Revenue – Other	Exclusion
Refunds	Included
Rent from Property Used in Operations	Inclusion
Sale of Gas	Inclusion
Tracking Accounts	Exclusion
Uncollectible Bills	Included

**Examples of Operating and Non-operating Revenue SCE**

<b><u>Type of Revenue</u></b>	<b><u>Recommended for Inclusion or Exclusion</u></b>
Connection to Transmission Lines	Inclusion
Decommissioning Trust Fund	Excluded
Electric Deferred Revenue Account (EDRA) Refund	Excluded
Field Collection Charges	Inclusion
Firm Transmission Rights Auction Revenue	Inclusion
Gain on Disposition of Property - Transmission	Inclusion
Generation Business Unit Revenues	Inclusion
Interconnect Charges	Inclusion
Interconnect Facilities Charges	Inclusion
ISO-Congestion Revenue	Inclusion
Joint Pole Rentals	Inclusion
Late Payment Charges and/or Forfeited Discounts	Inclusion
Miscellaneous Electric Revenue	Inclusion
Miscellaneous Service Revenue - Other	Inclusion
Miscellaneous Service Revenue – Ownership Cost	Inclusion
Non-Tariff Revenue	Inclusion
Revenue – Transmission of Electricity – Others	Inclusion
Sales of Electricity	Inclusion
Sales of Surplus/Excess Energy	Inclusion

**Examples of Operating and Non-operating Revenue SCE**

<b><u>Type of Revenue</u></b>	<b><u>Recommended for Inclusion or Exclusion</u></b>
Service Establishment Charges	Inclusion
Service Reconnection Charges	Inclusion
Services Rendered	Inclusion
Settlements/Incentive Plan Awards	Inclusion
Use of Transmission Line	Inclusion
Wheeling Revenue	Inclusion
Wholesale Distribution Access Tariff	Inclusion



Joan LeSage  
Assistant General Counsel

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December 22, 2009

Ms. Grace V. Chang  
Senior Deputy County Counsel  
Contracts Division  
Office of the Los Angeles County Counsel  
648 Kenneth Hahn Hall of Administration  
500 West Temple Street  
Los Angeles, California 90012

Dear Ms. Chang:

Southern California Gas Company (SoCalGas) has reviewed the audit report, "County of Los Angeles Independent Review of Compliance by Southern California Gas Company of Terms of County Franchise For the Period January 1, 2001, Through December 31, 2005" ("Report") prepared by Mayer Hoffman McCann P.C. for the County of Los Angeles. The County has informed SoCalGas that it intends to post the Report including all attachments. SoCalGas respectfully requests that this letter to the County from SoCalGas be posted together with any posting of the Report.

The franchise calculations are complex and SoCalGas has worked diligently with the auditors to explain the methodology and correct calculations. Although the majority of issues were resolved with the auditors, SoCalGas does not agree with or accept the auditors' calculations or findings that are reflected in the Report. As a result, it is not appropriate to use the calculations and findings in any other context. Anyone reviewing the Report should also be aware that the Report covers only the years 2001-2005. SoCalGas is looking forward to the opportunity to work with County staff and counsel to resolve the final issues set forth in the Report.

Sincerely,

A handwritten signature in cursive script that reads "Joan M. LeSage".

Joan M. LeSage  
Assistant General Counsel

JML/rm

cc: Rex Ball, SR/WA